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**Chinese expatriate management in emerging markets:
A competitive advantage perspective**

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Chinese expatriate management in emerging markets:

A competitive advantage perspective

Abstract

Recent research draws attention to the large number of expatriates sent abroad by Chinese multinational corporations (CMNCs), especially to emerging markets. It is generally assumed that their large number, and any competitive advantage this generates, relate predominantly to their low cost, compared to other MNCs’ expatriates and/or locally available labour. Our research uses an integrative perspective drawing on the resource-based view (RBV), international human resource management (IHRM) and “country of origin” literature and extensive case-study research on 27 CMNCs in 12 emerging markets. This reveals that the competitive advantage created by Chinese expatriates is closely related to the use of expatriates at both managerial and operational levels. It is achieved through human resource management that exploits their relatively lower cost, higher productivity and hardship tolerance (compared to host or third country counterparts) and their knowledge/resource reconfiguration capability, through a centralised and collective expatriation management system. These together enhance CMNCs’ competitive advantage through not only offering cost effective and differentiated products but also transferring the reconfiguration knowledge. This study enhances understanding of the competitiveness of emerging market multinationals (EMNCs) by showing how the competencies, combination and management of their expatriates create a distinct source of competitive advantage. It also advances IHRM research on expatriates by investigating their use from a competitive advantage perspective.

Key words: managerial expatriate, operational expatriate, competitive advantage, MNCs, emerging market, China

Chinese expatriate management in emerging markets:

A competitive advantage perspective

1. Introduction

Chinese multinational corporations (CMNCs) are notable for their extensive use of expatriates. According to official Chinese data, at the end of 2013 over one million Chinese expatriates were employed by about 15,000 CMNCs, alongside 967,000 employees from the workforces of host countries (MOC, 2014). Based on this figure, CMNCs' expatriate ratio (the percentage of expatriates to total employees overseas) was over 50 per cent. This seems significantly higher than that of other MNCs including Japanese MNCs (Oki, 2013). CMNCs' use of large numbers of expatriates has caused tensions and occasional violent incidents against them (e.g. BBC, 6 Oct 2010; The Guardian, 6 Feb 2011). The negative image is reinforced by the impression that expatriates are brought in mainly to exploit cheap labour, and by the unusual extent to which CMNCs deploy their own workers as well as managers to overseas operations. "While the existing literature on managing people in MNCs primarily focuses on the challenges of managing locals and a relatively small number of skilled expatriates, Chinese MNCs have increasingly brought semi- and unskilled labor with them into developing countries in Africa; this development has far-reaching organizational, developmental, political, and even demographic dimensions" (Wilkinson *et al.*, 2014, p. 836). Despite this observation, there has been little research exploring potential motives for CMNCs' heavy use of expatriates, and especially their use of semi- and unskilled workers, and how they assist management in creating competitive advantage.

The widely applied resource based view of the firm posits that, for a MNC to attain lasting competitive advantage, it must take with it hard-to-imitate strategic assets. Competitive advantage can be derived from a variety of country-of-origin and host-country

1 contextual factors (Kothari *et al.*, 2013; Luo and Zhang, 2016). As DMNCs' most
2 important strategic resource is perceived to be their cutting-edge knowledge and best
3 management practice (Edwards and Rees, 2016), expatriates contribute to firms'
4 competitive advantage through transferring such technology. DMNCs use strategic HRM
5 to promote this expatriate role. EMNCs have become important global market players in
6 the last decade, contributing 42 per cent of global total FDI and playing an even more
7 important role in emerging markets (UNCTAD, 2015). They have long been regarded as
8 lacking any important strategic resource, or as attaining this only through lower cost (Rui
9 and Yip, 2008; Thite *et al.*, 2014). IHRM research has identified a role for expatriates in
10 acquiring knowledge for the MNC or contributing to lower cost by substituting cheaper
11 labor for host country nationals (HCNs) (Zhang and Edwards, 2007; Jackson, 2014).
12 However, it has been recognized that EMNCs have upgraded their advantage from lower
13 cost based to the "optimum configuration of people, processes, and technology" (Thite *et*
14 *al.*, 2014, p. 921). There is little research to date that explores changes in EMNC expatriate
15 characteristics and management as their sources of competitive advantage evolve.

16
17 To address the gap in both IB and IHRM research, this paper examines whether
18 and how expatriates contribute to EMNCs' competitive advantage. It uses an integrative
19 perspective drawing on the resource based view (RBV) of a firm, IHRM and country of
20 origin literature, and develops these using extensive case-study research on CMNCs in
21 emerging markets. While the RBV and country of origin perspective suggest EMNCs must
22 turn their country-of-origin related strategic resources into "hard to imitate" assets, they
23 also need to devise IHRM strategies for expatriate management to meet host-country
24 requirements and challenges.

25
26 Chinese MNCs are an important source of evidence on this, as the major external
27 players in emerging markets (UNCTAD, 2015). The basis of CMNCs' competitive

1 advantage has been observed as moving from lower cost to composition capability (Luo
2 and Child, 2015). Composition capability – configuring and using generally-available
3 resources more effectively than competitors – can be leveraged to CMNCs’ overseas
4 operations (Rui *et al.*, 2016). The same CMNCs tend to deploy a large number of
5 expatriates; but there has been no direct investigation of whether and how these expatriates
6 and their management generate competitive advantage for CMNCs. “The approach of
7 Chinese MNEs to IHRM has become an urgent area of management study” (Shen and
8 Edwards, 2004, p. 814).

19 Drawing on empirical evidence from 131 interviews with 27 CMNCs in 12
20 emerging markets, we find that CMNCs’ competitive advantage is derived from deploying
21 managerial and operational expatriates with unique competencies, and making them work
22 closely as an integrated team. This achieves cost reduction, differentiation and
23 enhancement in delivery, and transfer of internal knowledge, all ultimately contributing to
24 competitive advantage. Our study advances the understanding of EMNCs’
25 competitiveness, empirically identifying the direct contribution of their use of expatriates.
26 It also extends the IHRM focus from DMNCs’ (mainly managerial) expatriates to those of
27 EMNCs, which extensively use expatriates both at managerial and operational levels. This
28 is also the most detailed empirical research to date exploring CMNCs’ expatriates,
29 especially at operational level, and their role in creating CMNCs’ competitive advantage.

46 This paper is organised as follows. Section 2 reviews existing literature on the
47 relation between MNCs’ competitive advantage and their use and management of
48 expatriates. This then frames our research questions. Section 3 explains our research
49 methods. Section 4 presents findings on the main characteristics and management of
50 CMNCs’ expatriates, and how these contribute to competitive advantage. Section 5
51 discusses the specific reasons for our findings, especially relating them to China’s country

of origin factors. Section 6 assesses theoretical and practical implications, and limitations of the research.

2. Literature review: MNCs' competitive advantage and expatriates

Competitive advantage is the difference between two competitors on any dimension that allows one to create customer value better than another (Ma, 2000, p.18). The resource-based view (RBV) of the firm (e.g. Barney, 1991) emphasizes that firms develop sustained competitive advantage in terms of hard-to-imitate strategic resources. Country of origin and host-country contextual factors both contribute to MNCs' strategic resources (Thite *et al.*, 2014). While cutting edge technology and best management practice are widely considered as such resources for DMNCs, EMNCs have more often been viewed as relying on lower cost production. A MNC must have differentiated IHRM strategy to allocate expatriates with suitable competencies and management support to ensure successful transfer of "competitive advantage generated from its country of origin" to an overseas operation (Gibson *et al.*, 2015; Bender and Fish, 2000).

Hence, expatriates can promote competitive advantage through transferring their MNCs' strategic resources from the home country to the overseas operation. They can also constitute in themselves a resource conferring sustainable competitive advantage, because of the unique competency held by individual employees and effective team-working that can be difficult to imitate or substitute (Colakoglu *et al.*, 2009). Effectively managing human resources with a range of competencies can enhance a firm's competitive advantage (compared with competitors that lack such HRM) through a number of channels. These include higher productivity, lower employee turnover, higher product quality, lower production costs, and more rapid acceptance and implementation of corporate strategy, all of which can confer higher profitability and/or enhanced market position (Wernerfelt, 1995).

For MNCs originating in developed countries (DMNCs), the first widely recognized strategic resource was superior knowledge (Hymer, 1976; Kogut and Zander, 1992). Their expatriates were ascribed a significant role in transferring such knowledge to achieve competitive advantage (Blomstrom and Lipsey, 2000), making strategic international human resource management (IHRM) and global talent management key components of DMNC strategy (e.g. Harzing, 2001; Moore and Rees, 2008; Caligiuri and Tarique, 2012). The high initial expatriate ratios of Japanese MNCs, whose contrast with DMNCs drew early attention, has more recently been linked to their importance in knowledge transfer (Fang et al., 2010). As expatriates' knowledge transfer responsibility makes technical competency essential (Tung, 1981, 1987; Brislin *et al.*, 2008), DMNCs' expatriate roles are normally occupied by managers, professionals and some technically skilled workers. Their IHRM features a support system focused on these individuals, using higher compensation to motivate their work overseas and equip them to live in the foreign conditions so as to perform their role effectively (e.g. Edwards and Rees, 2016). Despite improvements, it is still difficult for DMNCs to send expatriates to emerging markets (Brookfield, 2010). Conflict between expatriates and host country co-workers or officials can limit the success of knowledge transfer and overseas operations (Gamble and Huang, 2008; Bonache *et. al.*, 2016). These support and motivational needs keep DMNCs' costs of expatriation relatively high and limit the numbers involved (McNulty and Tharenou, 2004). As DMNCs' technology matures and knowledge becomes more codifiable and transferable from a distance, DMNCs often cut down their use of expatriates, recruiting global talents while stepping-up their hiring of HCNs (e.g. Lee *et al.*, 2009). For mass market production based on their technology DMNCs use a large scale of semi-skilled and unskilled workers which sometimes cause conflict between expatriates and workers due to

the different culture, mindset and working ethics (Berry and Bell, 2012; Edwards and Zhang, 2008; Smith and Pan, 2006).

For MNCs originated from emerging markets (EMNCs), their first competitive advantage to be identified was “low-cost labor”, initially exploited in the home country but sometimes exportable to host countries (Cooke, 2014). More recently, some EMNCs have been found to attain competitive advantage from the “optimum configuration of people, processes, and technology” (Thite, 2014, p. 921; see also Carney *et. al.* 2016). The ability to achieve more efficient configurations, a firm-specific strategic resource consistent with the RBV, enables some EMNCs to attain competitive advantage even when they have no other proprietary resources, an insight of the recently advanced composition-based view (Luo and Child, 2015). Through skill at (re)composing existing resources, EMNCs might obtain durable competitive advantage through combined superiority in cost, channel, and speed (Luo *et al.*, 2011). Moving beyond reliance on low cost alone, EMNCs have been found to gain competitiveness through “cost innovation” (Williamson, 2010) by leveraging inexpensive production or R&D resources, recombining existing technologies, and offering customers substantial variety at mass-market prices. Channel advantage refers to the unique strength in identifying, developing and utilizing all channel networks needed for both primary and support activities. Speed advantages arise from emerging market firms’ channel advantage and their capacity for fast learning, which strengthens their ability to identify market opportunities, respond to market needs, and launch and deliver new products quickly.

To extend such country of origin competitive advantage to other emerging markets, EMNCs must reconfigure externally-available and firm-specific knowledge to promote cost, speed and channel advantages in the new host country. This requires interaction with host-country managers, workers and officials to generate “relevant knowledge” (Rui *et al.*,

2016; Ado *et al.*, 2017). That requirement indicates a key role for EMNC expatriates, who must extensively interact with host-country managers and employees to create knowledge that is affordable, applicable and assimilable in the host country. It also suggests that engagement with local people to attain knowledge transfer must occur at all levels, operational as well as managerial – and thus that the use of operational expatriates by EMNCs may be associated with the knowledge transfer process, not just with the carrying-over of low-labour-cost advantages from home to host country.

Past IB and IHRM research thus indicate two possible contributions of expatriates to EMNCs' competitive advantage abroad, especially in emerging markets. They may promote the replication of lower cost labour advantages abroad (Rugman and Li, 2007; Luo and Rui, 2009); or they may contribute to a compositional advantage by transferring and reconfiguring knowledge (Thite *et al.*, 2014; Rui *et al.*, 2016). An important recent research on Indian IT-service outsourcing MNCs has suggested that EMNCs require a distinctive HRM strategy to promote the shift from competitive advantage based on low-cost labor to one based on optimising the configuration of people, processes and technology (Thite *et al.*, 2014). The “intellectual capital” held by individuals is identified as a key competitive resource, and expatriates' global roles in these Indian MNCs differ significantly from those of DMNCs. This calling for shift is echoed by Shah *et al.* (2017).

On Chinese MNCs, IB research provides evidence that CMNCs' country of origin related competitive advantage has evolved from low labour cost to more complex “cost innovation” and “composition based” advantages (Luo *et al.*, 2011; Luo and Child, 2015). However, recent IHRM studies still suggest CMNCs are mainly taking advantage of lower labour cost, identifying strong country-of-origin effects in their HR practices which may limit the effectiveness of their learning from, or knowledge transfer to, emerging market hosts (Jackson, 2014; Zhu *et al.*, 2014; Wang *et al.*, 2013, 2014). A strong home-country

1 culture instilling power-distance and company loyalty is often cited as steering expatriates
2 towards doing more and demanding less (Lin and Zhao, 2016). Low expatriate cost may be
3 one way that CMNCs leverage resource-based advantages abroad, given that CMNCs'
4 domestic competitive advantage is considered to be largely dependent on China's plentiful
5 supply of cheap and hardworking labour and autocratic management style (Cooke, 2014).
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7 This disagreement highlights the need for more detailed investigation of the way that
8 CMNCs transfer competitive advantage internationally, expatriates' role in such transfer,
9 and the ways in which this is facilitated by IHRM. Such investigation has been considered
10 an important new direction for EMNC research (Luo and Zhang, 2016) but no research has
11 been dedicated to it (Zhong *et al.*, 2015).
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25 Given their high expatriate ratios, and apparent success in upgrading their firm
26 level capability, there is an urgent need for new insight into CMNCs' HRM practices in
27 using and managing expatriates and its potential contribution to competitive advantage.
28 This motivates our three research questions: (1) what are the characteristics of CMNC
29 expatriates? (2) how have Chinese expatriates been managed? and (3) whether and how
30 expatriates' characteristics and management generate competitive advantage for CMNCs?
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41 **3. Research methods**

42 **Research design**

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44 This paper focuses on CMNCs' expatriate management in emerging market host countries,
45 which have been the destination of 88 per cent CMNCs' outward investment to date (MOC,
46 2014), and therefore the location of most of their expatriates¹. CMNCs have been argued
47 to attain competitive advantages related to cost, speed and knowledge in emerging markets
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59 ¹ Of course, the related reason for the less Chinese expatriates in developed countries was the latter had much
60 stricter regulations than emerging markets in terms of allowing Chinese expatriates to enter their countries.
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(Luo *et al.*, 2011; Rui *et al.*, 2016), but no research has yet examined expatriates' role in creating this advantage. CMNCs have also been criticised for bringing large numbers of expatriates to emerging markets whose presence may lessen job opportunities for locals. Surprisingly also little academic research has explored the real scale, cause and impact of CMNCs' expatriate deployment. We address both the academic and practical research gaps by using 27 CMNCs as case studies. These were selected from over 100 CMNCs, researched by the first author since 2005 for a large project entitled "Chinese outward investment and multinationals", as they contained the most detailed interview and case material on their expatriate characteristics and management.

Taking an inductive qualitative approach, we sought evidence for competitive advantage broadly defined as "any dimension leading to one [company] providing more customer value than other competitors" (Ma, 2000). Interviewees' responses were analysed for evidence of (and explanations for) competitive advantage along several possible dimensions, which may include classical cost leadership and differentiation leadership (Porter, 1998, p. 3), but can also include indicators such as enhanced market share, winning more contracts, and successful knowledge transfer.

With this broad definition, we designed interview questions focusing on the status and management of the expatriates, and how their activities might relate to CMNCs' competitive advantage in a comparative perspective. While inviting interviewees to share their views on whether CMNCs create competitive advantage via expatriates, we particularly asked open question such as "do you think this CMNC owns competitive advantage compared with other MNCs also operating in your country?". If the answer was "yes", we proceeded to ask "what are they then?" before finally asking "how did expatriates contribute to such advantages?". If the interviewees' answer differed from the competitive advantages widely claimed by existing literature, we ask some questions for validity, e.g.

“CMNCs are perceived to have the advantage of being fast delivery, is that true? How have expatriates contributed to that fast delivery? Do you have examples during the time you worked in the Chinese firm?”.

Data collection

Table 1 summarises our cases and 131 interviews. Data were collected between 2008 and 2015. The time-interval of data collection has benefited the study, allowing us to observe the characteristics of CMNC’s expatriate and management in an evolutionary perspective, and help us to understand the change of the importance of Chinese expatriates to CMNCs’ competitive advantage during the period of our observation. Data for each case were collected from documentation, fieldwork observations and interviews, which were our primary source of information. The interviewees could be roughly divided into two categories. One consisted of CMNC managers, engineers and workers, including Chinese expatriates, home and third country nationals. Another consisted of Chinese government officers such as commercial counsellors and ambassadors in every visited country, officers of international organisations and host government officers often from Ministries of Foreign Investment, of Labour Force or Social Affairs, project owners, designers, managers, and supervisors of host country or third nationality. Interviews were conducted in either Chinese or English.

Data analysis

We consulted the case study methodology described in Yin (2008) and Eisenhardt (1989) to understand and analyze the expatriate management practices in the research case studies. We analyzed all the collected data by means of data reduction techniques (Miles *et al.*, 2014), guided by the research questions. We highlighted the paragraphs of all relevant documents and interview transcripts, and prepared a list with descriptions of the expatriate

characteristics and management practice that appeared recurrently. Next, we focused our efforts on the factors that appear to have greatest relevance to the expatriates' attitude, ability, management, and whether and how they contributed to CMNCs' competitive advantage. We then compared and contrasted the factors in each case and mapped out their commonalities and differences. We also compared and contrasted the case study with existing theoretical arguments, gaining an understanding of the findings, such as the transformation of expatriate advantages into core competence. Finally, inductive analysis of the data enabled us to refine the emergent conceptual framework. We also took reliability and the internal and external validity issue into account when designing and conducting the project. This is reflected in the use of open-ended interview questions to identify potential causes, collection of multiple information sources, and inviting interviewees to compare the expatriate practice of CMNCs with that of DMNCs and other EMNCs located in the same host country.

4. Findings: expatriates, management and competitive advantage of CMNCs

In this section we address the three research questions respectively, beginning with expatriate characteristics.

What are the characteristics of CMNC expatriates?

Large number at both operational & managerial levels

Precise numbers of CMNCs' expatriates were extremely difficult to obtain. While large CMNCs (especially SOEs) were often able to show the figures of their expatriates, fewer private or smaller Chinese firms had such information publicly available. Most of the Chinese commercial counsellors interviewed admitted to some "mystery" over expatriate numbers, especially at the operational level. One conceded that "while the official estimate

of the Chinese in Sudan is 30,000, I guess the real figure is probably several times higher” (IV125). Our sample, while containing manufacturing and agribusiness firms, is weighted towards those engaged in infrastructure, which tends to have a relatively high unskilled labour requirement. But as such labour can be hired locally, CMNCs’ use of operational expatriates still requires explanation, and counsellors’ statements suggest a tendency to understate their number.

Our fieldwork observation and interview data confirmed CMNC overseas subsidiaries’ extensive use of expatriates, illustrated by several cases from which illustrative quotes are shown in Table 2. It was not unusual for expatriates to account for 50 per cent or more of all employees in a subsidiary or project. A key reason for the high ratio is the use of expatriates at operational as well as managerial levels. Many CMNCs had a large number of expatriate workers – skilled, semi-skilled and occasionally unskilled - on jobs such as infrastructure construction. We term these “operational expatriates”. At first sight they appear similar to the “working labour” described by previous research on DMNCs (Smith and Pan, 2006; Cooke and Lin, 2011). There were, however, significant differences between CMNCs’ operational expatriates and DMNCs’ working labour. CMNCs’ operational expatriates are predominantly their own employees, transferred overseas after service at home, on long-term contracts. CMNC managers gave a number of reasons for their use of expatriates, beginning with their lower cost and higher productivity (than HCN equivalents), their tolerance for hardship and the knowledge they bring.

Tables 2 is about here.

Lower cost (compared to DMNC peers) and higher productivity (compared to locals)

Despite some evidence of the pay differential narrowing in recent years, we found that CMNCs’ managerial expatriates had much lower salaries and worked longer hours than

1 their peers in DMNCs. This remains an important source of competitiveness through lower
2 operating cost. One expatriate stated (IV80):
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5 “In 2001 when working in Sudan my monthly income was USD1370 including USD320 of
6 salary and USD35 per day compensation. A same-level Canadian employee [in a western MNC]
7 had USD32000 of monthly income, 30 times mine when considering he took more holidays than
8 I did. Now [in 2011] we are much better. I am working in Iran and my total monthly income is
9 about USD5000 and my peers in Schlumberger Iran had a monthly income of USD10000”.
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16 Lower cost is also related to the tendency of Chinese expatriates to accept long
17 stays in the host country and not to bring their family with them, and the collective support
18 system (see below). Among all of the interviewed expatriates, only two managerial
19 expatriates had their wives visit for short period (3 months or so). The reason was that
20 CMNCs were operating in emerging markets with difficult circumstances including civil
21 war, harsh natural conditions, and language and cultural differences from which
22 managerial expatriates were no more insulated than operational expatriates. Above all,
23 Chinese expatriates (at all levels) care about the education of their children, and partners
24 often stay in China to look after children who would otherwise not be able to receive the
25 education needed to participate in the Chinese exam system.
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42 Compared to locally recruited workers, Chinese operational expatriates typically
43 cost more, but CMNCs still prefer to use them. One subsidiary head gave the typical
44 explanation: “Developing countries often wish to do more things using less money. The
45 tight delivery schedule often pushed us to use our own expatriates instead local
46 employees ... Although in this country one expatriate costs more than a local employee,
47 we still prefer to use Chinese because one Chinese is as productive as three locals” (IV1).
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57 *Hardship tolerance at both levels*

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Capacity for hard work was a distinguishing feature of CMNC expatriates, compared to DMNC or host-country counterparts. Almost all of our interviewees, on the Chinese and the host side, rated Chinese expatriates as “among the hardest working people in the world” (IV107), prepared to work extremely long hours and live in “whatever harsh conditions” (IV90). One CMNC geologist recalled that in Sudan in the late 1990s, to avoid delaying the oil exploration, his small team spent a Chinese new year’s eve in a 40-foot “house”, a transformed shipping container, in the remote oilfield. He was moved to tears when hearing the New Year greetings from leaders and colleagues at headquarters in Beijing via a special telephone link.

Willingness to take risks and endure hardships was also noted, as illustrated by a geologist’s letter to colleagues dated 26 April 2010: “When I worked in Block 3/7 in Sudan, the conflict between the government and anti-government forces continued. Our squad lost three large Mercedes Benz, one was blown up by mines, one by rockets and another was rammed into by a tank and destroyed. We repeatedly encountered gunfights, but did not stop working in order to ensure China's interests and reputation” (IV76). Likewise, operational expatriates had to work in similarly unsafe or conflicting environments. When asked why, most managerial expatriates told us they were pursuing higher income, personal development and an obligation to obey corporate demands. “Working overseas can earn several times more income than working domestically. After working overseas for a few years, I may have made enough savings to buy a flat for the family and may also be promoted” (IV67). Some also felt that there was no choice. “How was supposed I say No when the company allocated the task to me? I wanted to stay in the company” (IV78). Operational expatriates revealed similar motivations to earn good incomes and improve their family’s living standard. Some said explicitly that they needed more income to afford their children’s education (IV19).

Disciplined and adaptive

Chinese expatriates were also observed to be disciplined, adaptive, obedient and flexible towards duties, and to ensure unusually long assignments when asked. In the words of one: “I have been overseas for 10 years, which has brought advantages to my company in maintaining close relationships with the host country and winning projects. In contrast, expatriates of DMNCs move quickly” (IV72). At the time of this interview in 2008, this manager was expecting to return to Beijing headquarters and to receive his golden prize for 10 years’ overseas service. However, without any advance warning, he was asked instead to move from Sudan to Algeria for a new operation (IV72). Evidence was found of such sacrifice promoting competitive advantage. In the case of IV72, his and colleagues’ speedy move to Algeria enabled more effective bids which quickly turned the CMNC from a minor into a major player (IV72).

Reconfiguration of knowledge

We find that knowledge reconfiguration is another distinguishing competency for expatriates at both managerial and operational levels which is again related to the country of origin factors. As the fastest growing emerging market in the past three decades, China’s infrastructure has been visibly improved as the result of receiving FDI, aid and home government investment, offering Chinese firms the opportunity of learning from DMNCs in China. Most Chinese expatriates had substantial prior project experience before going overseas, and used this to work with local management and labor to find ways of adapting working practices, technologies and logistics to suit the often uniquely challenging host-country conditions. C14 is an example in which the integrated expatriate team reconfigured managerial and operational knowledge to make it work in Ethiopia, in ways that local managers and workers could eventually take over. When Chinese firms

1 began acquiring the latest wind power technology from Europe after 2000, they “modified
2 European technology by finding alternative materials and methods, and taking advantage
3 of China’s lower manufacturing and labour cost and faster delivery”, so that today
4 “Turbine blades made in China are much cheaper than Europe’s” (IV37). Being asked
5 about why human resources can be used in such modification process, IV37 explained:
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11 “Engineers and managers often hold the responsibility to codify DMNC transferred technology,
12 modify the technology for restriction of budget or condition (e.g. advanced power equipment may
13 not be used for rural areas given its unmatched power network) and work out Chinese ways to
14 implement the modified technology. Meanwhile, an operation team is required to work closely with
15 the engineers and managers on various tasks such as experimenting the technology by installing
16 different equipment’s for trial, change geological condition for trial purpose, sometimes using their
17 human power to replace equipment, and more often practicing manager’s design idea without a
18 documented technical manu or guideline. Chinese often keep know how in their brain not
19 documentation. So operational team work out their understanding based on the close coordination
20 and observation with engineer and mangers”.

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34 Using the experience in China, C14 was able to win the African project by offering a
35 package that included low-cost finance, the adapted technology, access to China’s 20 best blade
36 suppliers, and a competitive construction team (IV37).
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42 **How have Chinese expatriates been managed?**

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45 Our case studied CMNCs held a common view that HRM systems were important for
46 exploiting expatriate competencies effectively. Although the practices varied across
47 sectors and firms, some common approaches were observed.
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53 ***Integrated management of both operational and managerial expatriates***

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56 In many CMNCs we visited, the two levels of expatriates were managed in an integrative
57 manner. For example, many operational expatriates live in the same accommodations as
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1 the managerial expatriates, making them interact closely and facilitating direct reporting
2 (as shown especially in the C7 case of Table 2). Expatriate managers and workers are
3 brought closer through the experience of sharing the same living conditions and
4 confronting the same host-country problems, leading to a greater affinity and lower
5 “power-distance” than is common in CMNCs’ home country operations. Operational
6 expatriates play a significant role in supporting the knowledge reconfiguration and transfer
7 that managerial expatriates undertake, as well as directly transferring some knowledge to
8 local operational counterparts. Such HRM strategy applied within CMNCs was suggested
9 to be able to overcome some of the frictions between Chinese and host country nationals
10 that have been observed in recent studies of Chinese non-managerial workers abroad,
11 which have mainly focused on “freelance” migrant workers who are not CMNC
12 employees and not subjected to comparable HRM (e.g. Lampert and Mohan, 2014).
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30 *Monetary and spiritual incentives vs. lower pay*

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32 Although host country nationals often perceive Chinese expatriates as treated
33 ‘ethnocentrically’ and paid more than local counterparts (Lampert and Mohan, 2014), pay
34 differentials tend to be related to performance differences. Although still much lower
35 compared to peers in DMNCs, Chinese expatriates are highly motivated by the income
36 differential over domestic peers, at both managerial and operational level. Monetary
37 incentives extend beyond salary. For example, C19 awarded expatriates who stayed
38 overseas for ten years or more with possible promotion, allocation of a free
39 accommodation, a more favourable residence permit (*hu kou*) or a grant to study in a
40 reputable university. Spiritual rewards comprise praise, a prize or just the recognition of
41 patriotic duty fulfilled. “Our general manager often uses patriotism to educate us, claiming
42 that we must be able to create a refrigerator with our national brands. I felt great about this
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ambition, joined the company and came overseas. In Pakistan I was literally caught in gunfire when meeting my customers” (IV82).

Strict discipline and centralised control

Expatriates’ obedience and work commitment do not arise solely from financial or spiritual rewards, but are closely related to the strict discipline of the expatriate management system. Expatriate management is centralized within the CMNC, with the Chinese home-based HRM division selecting managers and operational workers for overseas assignments based on their skills and experience gained in the home country. HRM at headquarters also tracks expatriates’ acquisition of further skills during assignment so they may be redeployed to other host countries that need their specific capability. CMNC headquarters have established various political, economic and social mechanisms to control the recruitment, operation, movement, safety and security of expatriates. Most apply central control, and place organisational needs ahead of expatriates’ individual and family needs. Salary and other rewards are usually set by the parent company in China, according to the company-wide system.

At subsidiary level this centralised control is reflected in strict expatriate policies and rules. One subsidiary head claimed: “We were not allowed to switch off our mobile phones because we were required to provide 7 days and 24 hours service to our customers. This is definitely not possible for DMNCs in this same market.” (IV46).

Discipline for operational expatriates often extends beyond work hours: “we check every night whether they go out for drink or gamble and whether they come back to their accommodations on time. We do not allow them to gamble as that will affect their working attitude and productivity” (IV21). Smaller and privately-owned firms had a wider variety of approaches. One CEO of a private construction firm in Dubai (IV21) explained: “I

1 transfer their [expatriates'] salary and bonus directly to the account of their wives or other
2 family members in China. Hence, they have little money to go gambling; their families are
3 happy and support the husbands to work even harder. This is why my workers have higher
4 productivity than other companies".
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10 *Collective support for expatriates*

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12 CMNCs often house their emerging country expatriates together, which facilitates
13 managing and controlling them, while also building closer and more collegial relations
14 between them than is typical in the companies' more hierarchical workplaces within China.
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16 Use of 'expatriate compounds' co-housing managers and workers was observed in such
17 locations as Sudan (2008), UAE (2010), Tanzania (2013) and India (2015). In Sudan, the
18 first author stayed in the temporarily accommodations built at the bank of Nile River (see
19 Table 2 for detail). The managerial and operational expatriates lived in this remote and
20 isolated compound zone, although operational ones had to share a room with more
21 roommates than the managerial ones. They shared same canteen and entertainment sites
22 while the domestic employees had a same canteen but different rooms to cooking and
23 eating local foods. At the café table the different groups of expatriates were able to
24 exchange information and suggestions. These promote competitive advantage, particularly
25 in a high-risk environment.
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46 One managerial expatriate in Iran explained (IV78): "This is one of the approaches
47 widely used by CMNCs to deal with the large scale of expatriates, national cultural
48 differences and other challenges in a host country". In countries with poor security
49 conditions, employee safety was a further motive for housing all expatriates in one place:
50 "When choosing suitable accommodation, we always make safety and security our first
51 priority but also consider the convenience for our projects and businesses" (IV78). C19's
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1 hired houses were protected round-the-clock by armed security guards hired from a local
2 company. In Bangalore's high technology science park in 2015, C16's 20 or so expatriates
3 lived in a fully secured building behind the main R&D centre, surrounded by beautiful
4 gardens, quality cafeteria and modern facilities.
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10 **Whether and how expatriates' characteristics and management generate competitive** 11 **advantage for CMNCs?** 12 13 14 15

16 Most CMNCs in the host countries were found to have attained cost, channel and speed
17 advantages compared with DMNCs (which had often scaled-down their presence) and
18 local companies. Consistently with past studies, many interviewees confirmed that
19 CMNCs achieved competitive advantage through offering cost-effective as well as
20 differentiated and locally tailed products, projects and services. Some CMNC interviewees
21 said they could bid for a project at a price 1/3 lower than that of DMNCs competing for the
22 same business, while also providing fast delivery and customized products and projects to
23 meet local demand. Host country interviewees acknowledge these as among the most
24 important reasons for giving contracts to CMNCs, especially for projects with tight
25 deadlines, limited budgets or locations in difficult environments (IV90).
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41 We further found that the cost-effective and differentiated products, projects and
42 services were closely related to the following four factors, of which the first three were all
43 contributed by CMNC expatriates' characteristics and management: (1) the lower cost of
44 managerial and professional expatriates compared to DMNCs' counterparts, (2)
45 operational expatriates' higher productivity compared to hiring local employees, (3) close
46 coordination between managerial and operational expatriates, each with rich
47 reconfiguration capability and (4) opportunities to source equipment and materials from
48 China.
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1 Alongside lower cost and higher productivity which make an obvious contribution
2 to cost reduction in project, we found other competencies to be a distinct and important
3 reason for CMNCs' expatriate use, and a key consideration in their IHRM. As reported
4 earlier, CMNCs prefer to use Chinese operational expatriates even if they were paid higher
5 than local employees, because of their skilled for the jobs so the speed and quality are
6 better, and their hardship tolerance, flexibility for working and reconfiguration capability
7 so unexpected demand from host country and tailor made products and projects were
8 easier to satisfy. CMNCs therefore incur this extra cost for bringing operational labour
9 from China not for cost consideration but more for their productivity and knowledge. One
10 subsidiary head explained how integrated expatriate management promotes efficient
11 reconfiguration: "Our advantage emerges from immediately knowing where to find sub
12 contractors [to get most economic products] as soon as we find a potential bid" (IV20).
13 Another subsidiary head recalled why they succeeded on their first contract in Brazil since
14 2004 and the company's market share increase continuously since then: "We took the
15 customer demand so seriously ... worked day and night to find solutions and deliver
16 projects in a extremely tight timeframe" (IV53).

17 We also found that CMNCs create competitive advantage through transferring their
18 reconfiguration knowledge relevant to local. C19 was able to invest in a refinery company
19 in Sudan was because the company "promised in the contract to transfer all the operation
20 and maintenance knowledge to the joint venture partner" (IV70). The deputy head of C4's
21 railway project informed us that promising to transfer knowledge was written in their
22 bidding book, which was a crucial condition for his company won the project (IV10):

23 "Our ERC contract has one article dedicated to capacity building. We need to report the
24 proportion of labour force we are using, from unskilled labour to engineers, from the
25 number of Chinese employees to local employees. Moreover, ERC has a dedicated

Capacity Building Department. ... We are training 12 senior managers for ERC, all paid by us. Central and Southern China University provides distance education on railway management. In addition, Tianjin Railway Professional Technology College also offer training for Ethiopians, with 254 in the first batch. They were trained to become train drivers, maintenance workers, crew members etc”.

In this project C4 used 6,000 local alongside 800 Chinese to construct 370 km from Dawanle to Djibouti (IV10). The first author visited the railway construction site, where hundreds of workers were producing railway sleeps. There were about 50 local workers working in one row with 5 Chinese correcting their methods constantly. Asking why the project was delayed due to teaching locals to do the job but the company was still cooperative, C4 subsidiary head explained: “we got more contract in the local market because that we met the demand of the Ethiopian government to transfer the knowledge they require. We also enhanced our reputation in doing so”.

The integration and collective management of operational and managerial expatriates promotes their productivity through synergies and more effective knowledge transfer to the emerging host country. Apart from the easier communication benefit shown earlier, close working relations among different grades of expatriate permit CMNCs to adjust the pace and intensity of the project according to the customer demand with the least restriction from the project implementing side. For example, C7 was able to speed up dam construction by housing workers at all levels in dormitories on the construction site, ready for jobs that arose around-the-clock, which contributed to offering cost and differentiated projects. C14 was an example of achieving competitive advantage through forming an integrated team to transfer knowledge. Its expatriate-led reconfiguration of existing wind power technology allowed it to assemble a host country package that also included financial support and equipment manufacturer knowledge. Operational expatriates were

able to reconfigure the installation practices and worksheet to meet the local geological conditions. In doing so, the integrated expatriate team brought flexibility and efficiency to the host country, while also enabling local officers and employees to obtain knowledge from them.

5. Discussion

How do CMNCs create competitive advantage via expatriates?

Our research shows that CMNCs have created competitive advantage by *using and managing expatriates to transfer internationally certain country-of-origin benefits into hard-to-imitate firm specific assets*. Their IHRM strategy and practice have been developed so that some hard-to-eradicate country of origin elements - including China's lower development stage, high power distance, collective culture and rapid growing emerging market and international engagement – can be made to work beneficially in host countries' commercial and social environment, through the use of expatriates.

The foremost country of origin element is China's lower development stage, which allows lower-cost and hardship-tolerant labour and management to be replicated abroad. Previous research has noted that CMNC expatriates are easier to motivate for work in distant locations and harsh conditions, at lower pay rates than equivalents in DMNCs (Rugman and Li, 2007; Luo and Rui, 2009). Our findings provide more detail on why this is the case. Whereas DMNC expatriates must typically be compensated for venturing beyond their domestic comfort-zone, CMNC expatriates rarely require such compensation, as difficult times, harsh living and working conditions, unexpected setbacks and political challenges have been part of their home country experience due to China's lower development stage rapid structural change, and the related institutional voids (Cuervo-Cazurra and Genc, 2008). Our large number of interviews offered a common view that, the

1 present generation of Chinese expatriates (both managerial and operational) does not
2 expect the demands of foreign assignments to be notably worse than those confronted at
3 home. “How could this be more difficult than that in China?” was their typical reaction to
4 host country conditions. They have learnt to overcome these overseas challenges through
5 solidarity and other ‘spiritual’ rewards with low expectation of financial gain (Ou *et al.*,
6 2014; Li and Zhang, 2007). Expatriation even has attractions: “Overseas assignments often
7 promise substantially higher pay with less upheaval in culture and conditions than DMNC
8 counterparts would experience” (IV80). Such spirit has obviously contributed to CMNCs’
9 competitive advantage, as expatriates who are familiar with the host country culture and
10 norm can significantly reduce cultural barriers MNEs encounter and hence strengthen
11 competitiveness (Luo and Shenkar, 2011)
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27 We also find that *high power distance and collective culture have promoted labour-*
28 *force discipline, adaptability and productivity*, CMNCs turning them to advantage through
29 collective management in their IHRM practice. High power distance and collective
30 management are still typical in Chinese culture and corporate workplaces within China, as
31 shown in earlier research (Warner and Rowley, 2014; Hofstede, 2016). These enable
32 managers to wield power over workers without dissent, extracting high effort with strict
33 rules and only modest reward incentives, while preserving shared goals and loyalty to the
34 corporation (Smith and Pan, 2006). We discovered that Chinese expatriates commonly
35 sacrifice their family life for not bringing partners and children with them, offering the
36 feasibility of collective management. This finding is in line with other researches (e.g.
37 Shen and Jiang, 2015) claiming that family problems do not affect Chinese expatriates’
38 performance. Our case studies highlighted the importance of collective management for
39 achieving closer collaboration between expatriate managers and workers, and greater
40 responsiveness of workers to local conditions. It is especially applicable when CMNCs
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1 operate in emerging markets where security and safety in the natural environment are
2 causes for concern. Our observations confirm that CMNCs frequent use compound living -
3 made necessary by host countries' remote and hazardous conditions, or cultural and
4 linguistic unfamiliarity - to promote communication and shared experience among
5 expatriate workers and managers (Wilkinson *et al.*, 2014), without removing all elements
6 of hierarchy.
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15 Although compound living can narrow the differences between managers and
16 workers to a degree, high power-distancing is maintained in CMNCs' IHRM strategies,
17 which promote cost saving and knowledge reconfiguration through effective team
18 management of the two types of expatriates. Our case-study findings are consistent with
19 the large-scale survey analysis of Zhu *et al* (2013), who found that within China, a fast-
20 changing business environment favoured strategic integration of HRM, which then
21 promoted organizational effectiveness. The strategies we observed remained centralized, in
22 line with previous research (e.g. Shen and Edwards, 2004, 2006): HRM strategists in
23 China select managers and operational employees for expatriation based on their
24 experience, and track employee capabilities internationally so that technical specialists,
25 general managers or workers can be transferred from one overseas market to another when
26 the knowledge they bring can harness expansion opportunities. Having worked extensively
27 in Chinese operations before their expatriations, managers and workers tend to accept a
28 centrally-controlled and collective management system (Li *et al.*, 2015). As this can
29 sometimes make them reluctant to exercise localised initiative, IHRM strategy offers
30 encouragement from the centre to respond to local conditions and vary accustomed
31 practices when contrasting host-country needs demand a different approach.
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57 Finally, China's opening economy and large influx DMNCs have motivated and
58 also enabled CMNCs *to reconfigure resources and knowledge to fit host country context*
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1 *through learning from the inward DMNCs and overcoming institutional voids at both home*
2 *and other emerging markets.* Learning involves the acquisition of knowledge from
3 managers, workers and officials of the host country, as well as the inward transfer of
4 knowledge originated by DMNCs. Whereas past CMNC studies have emphasised the
5 acquisition of knowledge for home-country application via forming international
6 collaboration or acquisition or greenfield investment (Rui and Yip, 2008; Zhang and
7 Edwards, 2007), our findings highlight CMNCs' increasing reliance on outward
8 transmission of knowledge and skills from home to host country. In emerging markets this
9 is closely associated with the generation of new knowledge within host countries to meet
10 their specific needs (Rui *et al.*, 2016). It depends on operational as well as professional
11 expatriation for the identification and implementation of feasible solutions to unexpected
12 problems. CMNC expatriates are usually sent overseas after they have learnt how to apply
13 and adapt advanced knowledge (first developed by DMNCs) to Chinese conditions. This
14 instils a reconfiguration capability which they can apply to technology, equipment or
15 working methods to meet an emerging market's specific demands and conditions. Outward
16 transfer of knowledge reconfigured for local relevance emerges as an especially important
17 dimension of Chinese expatriates' ability to deal with institutional voids in emerging
18 markets (Cuervo-Cazurra and Genc, 2008; Hitt *et al.*, 2000). They are well placed to
19 understand and respond to the host country requirements, restrictions and resource
20 constraints, having dealt with similar situations in the home country.

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Our case-study evidence enables us to set up a framework (Figure 1) to illustrate how the types, competency and management of expatriates enhance CMNCs' competitive advantage. This framework shows how expatriation delivers competitive advantage in emerging markets not only through cost saving, but also (and increasingly) through transfer of knowledge reconfigured to local conditions, which requires unique

competencies of both managerial and operational expatriates and extensive management and collaboration between them.

Figure 1 is about here.

How sustainable is the competitive advantage brought by expatriates?

Since our research highlights a relatively rapid adaptation by CMNCs from purely cost-based to more knowledge-based competitive advantage, with earlier labour cost advantages narrowing, an obvious question arises over the durability of the expatriate-driven competitive advantages we identify. Our research indicates that, while country of origin elements have been turned to CMNCs' advantage through effective IHRM, there are some inherent limitations, which may restrict the present advantages' sustainability in the medium term.

Firstly, China's rapid development and moving away from low development stage have raised the expectations of the new generation of expatriates. Managers, professionals and ordinary employees are becoming less willing to serve extensive foreign assignments - involving long hours in harsh conditions with sacrifice of family life - as Chinese living standards rise and the younger generation's career aspirations rise (Warner and Rowley, 2014; Cooke, 2014; Lin and Zhao, 2016). This is raising expatriate pay expectations and narrowing the previous cost advantage over DMNCs, making it likely that pressure will build to reduce expatriate numbers and assignment lengths. Emerging host countries, where CMNCs' heavy use of expatriates has already caused tension (Lee and Sukoco, 2008; Wilkinson *et al.*, 2014; Mohan, 2014; Mohan *et al.*, 2014), are likely to accelerate the reduction in use of expatriates by imposing more restrictions on their number and the time for which they can stay, aimed at accelerating local job creation and knowledge transfer. Our fieldwork has also revealed instances in which CMNCs' heavy reliance on

operational expatriates may, after the initial cost saving, have caused longer-term disadvantage by incurring higher cost from expatriates' pay and delaying the substitution of local for expatriate workers. In some cases they have already suffered from sharp rises in cost and disruption of operations when the cost of operational expatriates starts to rise due to short supply in China, and host countries become more hostile to their large-scale deployment.

Secondly, rising income, better education and deeper penetration of western culture through new information channels have encouraged the new generation of the Chinese to challenge traditional corporate culture, including high power distance and collective management (Nolan, 2015; Castells, 2010; Lin and Zhao, 2016). Operational workers' improving education and promotion opportunities are likely to erode power distance at home (Chen *et al.*, 2014). The preservation of managerial authority is also becoming more difficult abroad, especially where emerging host countries become concerned about Chinese expatriates' concentrated locations keeping them isolated from the host community without integration into local culture (Mohan *et al.*, 2014; Jackson, 2014). Accordingly, Chinese government also issued "Guidelines on the Administration of Overseas Employees in Chinese-funded Enterprises" in 2011, regulating Chinese expatriates' behaviour to ensure their better relation with local employees and community (MOC, 2011). These pressures are likely to accelerate the reduction in CMNCs' use of expatriates by imposing more restrictions on their number, the time for which they can stay and the extent to which they can maintain distance from the local community. Our fieldwork revealed instances in which Chinese expatriates' isolation and perceived aloofness provoked criticism from local officials and residents. Such local attitudes negatively impact their chance to obtain future contracts (IV40, 30). This also heightens

the challenge for Chinese expatriates to improve their interactive skills with host countries (Wang *et al.*, 2013, 2014).

Finally, China has turned itself from the largest recipient of inward FDI to a major outward FDI provider (UNCTAD, 2015). CMNCs' advantages based on learning from DMNCs and on making lower cost and relatively undifferentiated products are now diminishing. They are already under pressure to transform from structures built on receiving knowledge from others to those equipped for creating and providing knowledge to others (Rui *et al.*, 2016). Some firms have proactively upgraded, by targeting more technology-based projects in preference to previous labour intensive projects. This transition is already leading to CMNCs using more carefully targeted managerial and technical expatriates and fewer operational expatriates.

A response to these challenges, involving a shift from cost-based towards knowledge-based advantages of expatriate deployment and a decline in use of expatriates, is already evident over the ten years of our CMNC case-study observations. Although these changes may narrow CMNCs' cost advantage in the short term, as some Chinese managers confirmed in their interviews, they may confer competitive advantage benefits in the longer term. Many CMNCs have already survived a substantial narrowing of the expatriate pay differential (relative to DMNCs) in recent years, and its expected persistence is driving more to seek ways to upgrade technology and service levels so as to maintain a distinct offer when the cost differential closes.

6. CONCLUSION

Theoretical and practical implications

Existing IB research has recognised EMNCs' improved competitiveness (e.g. Ramamurti and Singh, 2009; Luo and Child, 2015; Rui *et al.*, 2016) but has not offered detailed empirical research into the ways that expatriate deployment, competency and management contributes to EMNCs' competitive advantage. By assessing detailed case-study evidence on Chinese MNCs, this paper advances the understanding of EMNC competitiveness and the contributions to it of their IHRM strategy. This is important finding for all the EMNCs in general, as EMNCs need to strategically build a competitive advantage from their evolutionary paths (Kotabe and Kothari, 2016).

In contrast to past research which implies that EMNCs only obtain limited advantage based on cheap labour and materials and acquired or imitated technology from DMNCs, our study provides evidence that EMNCs can achieve additional advantages through their deployment of expatriates selected for their competencies at managerial and operational level. By using CMNCs as examples, our research also helps to explain why, in contradiction to earlier research suggesting that CMNCs use expatriates mainly because they are cheaper and more cost-effective than managers and workers sourced elsewhere (Cooke, 2014), CMNCs are now expanding rapidly in many emerging markets in which their own expatriates are usually more expensive than local labor. Our case studies reveal the principal motivations for using expatriates, based on their unique characteristics, and the ways in which CMNCs have adapted their centralized HRM strategies to accommodate the need for more local adaptation in expatriate deployment to emerging host countries.

Our study advances IHRM research on expatriates by investigating their use from a competitive advantage perspective, identifying how EMNCs' expatriate deployment creates competitive advantage through not only saving labour cost but also improving efficiency and exploiting reconfiguration capability. It reveals how EMNCs achieve advantage through deploying unique IHRM on expatriate and using of host-country

1 conditions to overcome home-country power and status differences. This offers insight and
2 empirical evidence to enrich the so called “HRM with Chinese characteristics” (Warner,
3 1993, 1995). It also extends expatriate research on the role and function of expatriates by
4 examining in detail their previously neglected use at operational level, and assessing ways
5 in IHRM strategy which integrates managerial and operational expatriates more effectively
6 promotes the competitiveness of EMNCs.
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15 Our study also deepens understanding of the resource-based view by providing
16 more detailed evidence of EMNCs’ use of expatriate human resources, and the way in
17 which these are applied to the creation and reconfiguration of knowledge which enables
18 unique and more efficient recombination of local human and physical resources.
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26 Finally, our study makes a practical contribution towards better understanding the
27 role, characteristics and management and functions of Chinese expatriates. It provides a
28 fuller picture of their use in emerging markets, and shows how this links to the creation of
29 sustainable competitive advantage, addressing some of the factors that have been found to
30 inhibit China’s outward FDI especially in countries that are not an FDI source (Yao *et al.*,
31 2016). It identifies potential weaknesses as well as strengths in CMNCs’ current
32 management of expatriates, and highlights trends which are likely to lessen the
33 effectiveness of expatriate deployment in future, requiring greater transfer of responsibility
34 to local management and workforce. Our study shows that not all CMNCs currently realize
35 the full potential of expatriates or manage them in ways that are sustainable in the longer
36 term. It may also help host countries that have accepted Chinese expatriates to understand
37 their characteristics, the reason for their large numbers, their potential to create lasting
38 strategic assets through the reconfiguration of knowledge for greater local applicability,
39 and the likely future evolution of their deployment.
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Limitations and future research

There are inevitably some limitations to this study. Firstly, the case material is mainly drawn from large CMNCs in a narrow range of sectors. Expansion to other sectors is needed to clarify further the role of expatriation in creating their competitive advantage. Secondly, more investigation of CMNCs' expatriate use in developed countries would be needed to test whether the same processes of knowledge adaptation and reconfiguration contribute to competitive advantage there. Thirdly, CMNCs and their expatriates may have specific characteristics related to country-of-origin advantages which limit the extent to which their creation of competitive advantage through IHRM and expatriate knowledge transfer can be replicated in other EMNCs. Finally, the availability to CMNCs of Chinese expatriates with lower cost and higher flexibility (compared to other MNCs) is likely to diminish as a more restricted labour market leads to increasing salaries in China; an escalation of expatriate costs was already evident during this multi-year study. To what extent CMNCs can continue to derive advantages from expatriates' flexibility and reconfiguration capability is an important question for future research.

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Table 1 Selected CMNC cases and interviews

Case	Core businesses	Interviewees (IV)	Expatriate interviewees	Interviewees (IV)	Host country Interviewees
1	Bridge, road, port, light rail construction	IV1 IV2 IV3	Kenya subsidiary head Ethiopia subsidiary head Ethiopia subsidiary manager	IV90 IV91	Kenya Road Authority; Ethiopia Chinese Commercial Counsellor
2	Airport, road construction	IV4 IV5	Kenya subsidiary head CEO of the parent firm	IV92	Kenya Chinese Commercial Counsellor
3	Railway design construction, and service	IV6 IV7 IV8 IV9	Senior manager Ethiopia Senior manager Ethiopia Construction commander Construction worker	IV93 IV94	Local employee Knowledge transfer director, Ethiopia Railway Corporation
4	Railway design and construction	IV10	Senior manager Ethiopia	IV95 IV96	Chinese consultant of Tazara Senior officer of Tazara
5	Water system and wind power construction	IV11 IV12 IV13 IV14	Cameroon subsidiary head Ethiopia subsidiary manager Ethiopia subsidiary manager Tanzania subsidiary manager	IV97 IV98	Senior officer, Ministry of Planning of Cameroon; Cameroon Chinese Commercial Counsellor
6	Shopping mall construction	IV15	Kenya subsidiary head		
7	Dam and power plant construction, engineering	IV16 IV17 IV18 IV19 IV20	Sudan subsidiary head CEO, Sixth Bureau of C7 Sudan subsidiary manager Two dam construction workers Kenya subsidiary head	IV99	Dam construction local worker;
8	Subway, house construction	IV21	UAE subsidiary head		
9	Dam and power plant construction	IV22	Site manager Sudan	IV100	British project supervisor
10	Dam, power plant and water system construction	IV23	CEO of parent firm		
11	Dam and power plant construction	IV24	Ethiopia subsidiary head	IV101	Department Head of Ethiopia Ministry of Social Welfare
12	Design, construct and invest all kinds of infrastructure projects	IV25 IV26 IV27 IV28 IV29 IV30 IV31 IV32	CEO of parent firm Deputy CEO of parent firm Marketing officer of parent firm Kenya subsidiary head UAE subsidiary head Russia deputy subsidiary head Contracted Chinese worker Singapore subsidiary HR manager	IV102 IV103	UAE Chinese Commercial Counsellor Singapore Construction Bureau
13	Oil, gas and underground heating drilling	IV33 IV34 IV35 IV36	Kenya subsidiary head Site manager Kenya Site Manager Kenya Site Chinese worker		
14	Power plant design/contractor	IV37 IV38 IV39	Ethiopia subsidiary head Ethiopia subsidiary site manager Contracted Chinese worker	IV104 IV105	Local employee; Senior officer of Ministry of Water and Energy
15	Power plant, transmission line, equipment supply	IV40 IV41 IV42 IV43 IV44 IV45	Sudan subsidiary head Sudan subsidiary manager Sudan subsidiary manager Sudan subsidiary junior manager Senior manager of parent firm Senior manager of parent firm		

16	Telecommunications, electronic	IV46 IV47 IV48 IV49 IV50 IV51 IV52 IV53 IV54 IV55 IV56 IV57 IV58	Cameroon subsidiary head Cameroon subsidiary manager Cameroon subsidiary manager Kenya subsidiary manager Kenya subsidiary manager Tanzania subsidiary manager Ethiopia subsidiary head Brazil subsidiary head Russia subsidiary head Kazakhstan subsidiary head UAE subsidiary head Turkey deputy subsidiary head UK subsidiary manager	IV106 IV107 IV108 IV109 IV110 IV111 IV112	Locally hired Corporate Affair Director, Indian R&D Centre; Officer of Cameroon Ministry of Trade& Investment; Sudanese employee in C16's client firm Sudanese employee in C16's rival firm Chinese Commercial Counsellor's PA Tanzania Former Director, The Brazilian Development Bank (BNDES) General Secretary, China India Business Association
17	Telecommunications, electronic	IV59 IV60 IV61 IV62 IV63 IV64 IV65 IV66 IV67	Kenya subsidiary manager Kenya subsidiary manager Tanzania subsidiary manager Ethiopia subsidiary manager Ethiopia subsidiary manager Ethiopia subsidiary manager Russia subsidiary head, regional head Kazakhstan subsidiary head UAE subsidiary marketing officer	IV113 IV114 IV115 IV116 IV117	Minister of Industry, Kazakhstan 1st Secretary, Chinese Commercial Counsellor Office, Russia 2nd Secretary, Chinese Commercial Counsellor Office, Kazakhstan First Secretary, Chinese Commercial Counsellor Office, Turkey General Secretary, Turkey Industry and Business Association
18	Industrial zone develop	IV68	Senior manager of the Zone,	IV118 IV119	Local hired chief advisor of the Zone; Chinese Ambassador Nigeria
19	Oil extraction, refinery, petrochemical, oil transportation and related services and constructions	IV69 IV70 IV71 IV72 IV73 IV74 IV75 IV76 IV77 IV78 IV79 IV80	Sudan subsidiary head CEO of the Refinery Ltd CEO of the Petrochemical Ltd Sudan subsidiary manager Sudan subsidiary manager Sudan subsidiary former chief engineer Senior manager of C19's supply firm Kazakhstan subsidiary chief engineer Kazakhstan subsidiary head Kazakhstan subsidiary HSE manager UAE subsidiary head & informant of Iraq subsidiary Iran subsidiary manager & informant of Iraq subsidiary	IV120 IV121 IV122 IV123 IV124 IV125 IV126	Local hired former senior manager Chinese Ambassador, Tanzania Senior officer of Sudan Ministry of Mineral and Energy Senior officer of Sudan Ministry of Finance Senior officer of Sudan Ministry of Trade & Investment Sudan Chinese Commercial Counsellor Minister of Foreign Affairs of Sudan
20	Air conditioner	IV81	Brazil subsidiary head		
21	Garment factory	IV82	Tanzania subsidiary head	IV127	Local employee
22	Textile factory	IV83	Tanzania subsidiary chief accountant		
23	Refrigerator manufacturer	IV84	India subsidiary chief marketing officer	IV128 IV129	Local informant on the subsidiary Chinese Political Counsellor, India
24	Bank	IV85 IV86	Chief Representative for African Region Russia subsidiary deputy head	IV130	Minister, Ministry of Public Enterprise
25	Bank	IV87	Senior manager & informant of the Bank's acquisition case in South Africa		
26	Agriculture, sisal produce and trade	IV88 IV89	Tanzania subsidiary head Tanzania subsidiary chief engineer and technician		
27	Real Estate Developer			IV131	Internationally hired chief advisor of Russia project

Notes: (1) All cases but C8, C16, C18, C21 and C23 are state owned. (2) IV1-89 worked in CMNCs. IV90-131 provided information for CMNCs.

Table 2 Typical case-study CMNCs

Case/ Employees/ Industry/ Ownership/ Locations visited/ project example	Expatriate characteristic: scale / types /competency	Expatriate management	How to generate competitive advantage
<p>C7 0.13 million employees/Dam construction/State owned/Sudan, Kenya, Cameroon, Kazakhstan, Tanzania.</p> <p>Project: Merowe dam building on River Nile in Sudan (2003-2008)</p>	<p>About 30 expatriates at managerial level, 2500 technical and construction workers while hiring 2500 local workers.</p> <p>“According to the contract, we need to use 80% local employees. If following that, we would not be able to complete the project on time, let alone in advance. We negotiated with the owner and eventually we brought 2500 Chinese and hire 2500 locals”; “we set one Chinese employee to supervise 7 locals in Pakistan, but only 1.5 here in Sudan” (IV15, managerial expatriate).</p> <p>“I came here because my company needed me. Also, good pay” (IV15).</p> <p>“I have been here for two years without visiting families. Several times I booked air ticket but had to give up as our project manager said the Sudanese government wanted this project being completed earlier... I feel guilty for my daughter who is preparing for national exam and needing my support” (IV19, operational expatriate).</p>	<p>High monetary incentives; Centralised decision making; Relatively strict disciplines; Self-contained living: temporary accommodations were built on the banks of the river Nile, a remote area without possibility to hire anything. One or two managerial expatriates stayed in one room while 8 operational expatriates in one room of 10 square meters. It contained 4 bunk beds for 8 workers. (Same conditions applied to 2500 workers hired from the host country). There is a large food hall where Chinese chiefs cook Chinese dishes for the expatriates and local chiefs cook local food for the locals. There is also a large hall for entertaining, but many suffered from depression as “the site is too remote and we cannot go anywhere without a car” (IV19).</p>	<p>(1) Bid at lower cost to win the contract;</p> <p>(2) Implement the project more effectively and efficiently as the expatriates with incentives and discipline as well as rich experience accumulated in Chinese markets. Managerial and operational expatriates cooperate seamlessly, e.g. when the project owner changed the plan of dam completion, the managerial expatriates immediately worked out a new implementing plan for sourcing, transportation and daily schedule, while operational expatriate adjust their daily schedule and holidays. They even together invented the way of working during the evening and morning but resting in the afternoon to avoid the hottest temperature.</p> <p>(3) Transfer relevant knowledge in the construction: using 2500 Chinese operational expatriates cost much more than using 2500 local employees, but this enables the local to work shoulder on shoulder with the Chinese after training and demonstrating necessary techniques including how to set up a global supply chain at managerial level and how to stir cement at operational level.</p>
<p>C19 1.09 million employees. Oil and gas. State owned. Sudan, Kenya, Kazakhstan, Tanzania, UAE, China.</p> <p>Projects: Greenfield investment in oil exploration and refinery in Sudan since 1996; Acquisition of a Canadian owned Kazakhstan located oil firm in 2005.</p>	<p>In the greenfield project the expatriate ratio was between 20% to 80%. “The high ratio of expatriate in Sudan was due to the intense pressure of discovering oil as soon as possible and the limited talents available from the host country” (IV69).</p> <p>In the acquisition project, the ratio was about 10% because “our parent company was determined to keep the corporate structure and local employees of PK so as to win long term success in the host country. The expatriates were limited to senior management level for the control role. Hence, the expatriate ratio was very low” (IV76).</p> <p>“People like my age get use of hardship and leaving family behind. It is also good pay and less bureaucratic stuff here” (IV77).</p>	<p>High monetary and spiritual incentives. Relatively relax disciplines. Centralised decision making. Self-contained living.</p> <p>In Sudan in early stage, expatriates lived in containers; gradually hired residential houses with security guards at the gate; brought own chef; expatriates all had the same dishes and lived in the same residential house; though in the capital, they were isolated due to security issue and poor transportation.</p> <p>In Kazakhstan, hired part of the buildings in luxury business district and also bought a building for offices, kitchens while hiring flats to live together.</p>	<p>(1) Bid at lower price and promised comprehensive service safeguarded by C19’s both upstream and downstream business.</p> <p>(2) Implement the project more effectively and efficiently. A large number of managerial expatriates were needed to dialogue with the host government on what precisely the local needed; highly specialised engineering and technical expatriates were needed to discover oil as early as possible; a large number of construction workers (the employees of C19) came to build the oilfield infrastructure faster as they had done this in China’s difficult geological conditions.</p> <p>(3) Knowledge transfer: a large expatriates were brought in to build a refinery to meet the demand of the host country who was eager to establish a complete oil supply chain in the country. The Chinese provided training and also worked together with the local in the refinery so as to ensure the refinery was handed over to the local after 8 years.</p>

Figure 1 A framework for understanding competitive advantage from Chinese expatriate management in emerging markets

